

PUBLIC UTILITIES COMMISSION

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**CAISO DRAFT FINAL PROPOSAL STANDARD [RESOURCE ADEQUACY]
CAPACITY PRODUCT****CPUC STAFF COMMENTS
January 14, 2009**

The CPUC Staff appreciates the CAISO Staff's continued efforts to develop a Standard Capacity Product (SCP). CPUC Staff commends the CAISO Staff's continued substantial efforts in developing the components of an SCP in such a tight time frame.

The CAISO Staff's Draft Final Proposal adds significant clarifications to past versions of the proposal. CPUC Staff would like to comment on the Draft Final Proposal and reemphasize certain aspects of previous CPUC Staff comments that have not yet been fully addressed in the most recent revisions. CPUC Staff emphasizes that its primary focus is ensuring that the proposed scope and detailed features of the SCP complement, rather than detract from, the State's Resource Adequacy (RA) efforts.

Demand Response

The CPUC Staff fully supports the Draft Final Proposal's treatment of DR, which is to defer the applicability of SCP to DR resources until the dispatchable DR functionality has been implemented under MAP.

Availability Data Source

The Draft Final Proposal recognizes the need to move toward the use of NERC GADS data as a long-term data source for the SCP, a business practice that is consistent with other ISOs' capacity product programs nationwide. Because the CAISO does not yet have access to a full NERC GADS dataset for performance metrics, CPUC Staff does not oppose CAISO's initial use of SLIC data in 2009, for the 2010 compliance year. However, CPUC Staff understands that the CAISO now has access to some GADS data, as part of the CAISO/CPUC's joint study for the Planning Reserve Margin (PRM). CPUC Staff therefore recommends that the CAISO evaluate expanding its use of GADS data, adopt relevant GADS metrics and definitions, and analyze GADS data for the existing fleet. CPUC Staff suggests that the CAISO evaluate the implementation of GADS data within the SCP for the next compliance year, currently 2011.

Use Limited Resources and Ambient Outages

The Draft Final Proposal exempts certain types of Use Limited Resources (ULRs) such as wind, solar, and QFs from the initial version of the SCP because these special

resources may require further review. However, the Proposal includes other ULRs in the SCP.

On page 17, the Draft Final Proposal describes that although ambient outages are not recorded as forced outages in SLIC, they “will be counted against the hourly availability of the resource” for purposes of SCP performance. CPUC Staff is concerned that this requirement may not appropriately recognize the unique needs of certain ULRs that are subject to the proposed SCP definition. In particular, hydro units and units with air permits may have limited run-time. If “outages” resulting from lack of run-time are submitted using the “ambient card” in SLIC, subject units may be unfairly penalized by the SCP as proposed in the Draft Final Proposal. CPUC Staff asks the CAISO to clarify whether such outages lead to penalties under the SCP. If so, the SCP should be revised to make allowances for the remaining ULRs. For example, a limited exception to the ambient outage counting under SCP could be created. If allowance can not be made for these ULRs then exempting them from SCP at this time may be necessary.

AS MOO and Coordination Issues

CPUC Staff appreciates CAISO Staff’s efforts to coordinate the SCP with the CPUC RA proceeding. CAISO has submitted an AS MOO proposal to the CPUC RA proceeding, R.08-01-025. CPUC Staff looks forward to reviewing party comments on the issue and anticipates a Commission decision on adding AS MOO to the RA MOO in June.

Transition Issues

CPUC Staff recognizes that transition issues and grandfathering must be addressed as changes are made in the RA program. Further, CPUC Staff commends CAISO Staff’s efforts to gather relevant information from market participants and develop principles for grandfathering existing RA contracts. CPUC Staff generally encourages entities to minimize the grandfathering of contracts under the SCP by modifying contracts to use the SCP to the greatest extent possible.

The approach to grandfathering described in the Draft Final Proposal requires holders of legacy contracts to “certify that the availability standards and incentives in their contracts are at least equal to the requirements set forth in the SCP tariff language¹”. While CPUC Staff appreciates that the CAISO Staff seeks to avoid a situation that could lead to a reduction in unit performance, CPUC Staff believes that a grandfathering provision is by definition unlikely to lead to a reduction in performance or reliability because the relevant legacy contracts have generally already been in use for RA. Therefore, the certification requirement may not be necessary and simpler approaches may be preferred. CPUC Staff suggests that the CAISO further define the certification requirement, clarify how it will be used, and why it is justified. For example, how can “availability standards and incentives” be compared to the SCP in order to ensure that they are at least equally stringent?

¹ Draft Final Proposal, pg 27.

CPUC Staff recommends that CAISO Staff consider an alternative approach in which all contracts signed in advance of the initiation of CAISO's SCP stakeholder proceeding (September 3, 2008) will be grandfathered. These contracts will be grandfathered for the duration of the contract and will not be transferrable. This approach eliminates the need for certification, does not allow any degradation in performance incentives relative to the current RA program, and does not create any incentives for market participants to "ink" non-SCP contracts in advance of the potential acceptance of the SCP by FERC and CPUC.

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